

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 PRS-01 PA-01 EURE-00
(ISO) W

-----021945Z 097610 /46

P R 021712Z MAY 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 7901
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO BRUSSELS
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 07544

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS
TAGS: ECON, EFIN, GW
SUBJECT: FINANCE MINISTRY STATE SECRETARY POEHL COMMENTS
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ON ECONOMIC STIMULATION AND CURRENT ACCOUNT SURPLUSES

REF: BONN 7406

1. FINANCE MINISTRY STATE SECRETARY POEHL RECENTLY
(BEFORE THE IMF INTERIM COMMITTEE MEETING) COMMENTED TO
AN EMBOFF ON SOME TOPICAL ECONOMIC ISSUES WITH BILATERAL

IMPLICATIONS AS FOLLOWS:

(A) ANYTHING BELOW 5 PERCENT REAL GNP GROWTH IN 1977 COULD MOTIVATE THE FRG TO ADOPT ADDITIONAL MEASURES AIMED AT SIMULATING THE ECONOMY. IN ANY CASE, HOWEVER, NOTHING OF ANY GREAT MAGNITUDE BEYOND WHAT IS PRESENTLY PLANNED (THE MULTI-YEAR INVESTMENT PROGRAM) SHOULD BE EXPECTED FOR THIS YEAR. EMBASSY COMMENT: THE ECONOMIC INSTITUTES' FORECAST OF UNDER 5 PERCENT GROWTH (SEE REFTEL) WAS NOT YET MADE PUBLIC AT THE TIME POEHL MADE THIS OBSERVATION. IT IS GENERALLY ACCEPTED THAT CONTINUED IMPROVEMENT IN THE SEASONALLY ADJUSTED UNEMPLOYMENT RATE IS CONTINGENT ON MAINTENANCE OF AROUND THE 5 PERCENT REAL GNP GROWTH RATE. ANYTHING BELOW 4 PERCENT GROWTH WOULD CLEARLY MEAN DETERIORATION INsofar AS THE LABOR MARKET IS CONCERNED, AND THEREFORE, IN OUR VIEW IS DEFINITELY A POTENTIAL CRITICAL POINT FOR POLICY CHANGE. THE ECONOMIC INSTITUTES' EXPERTS TELL US THAT AROUND A 4.5 PERCENT REAL GNP GROWTH SIGNIFIES APPROXIMATE STAGNATION AT THE CURRENT LEVEL OF UNEMPLOYMENT. END COMMENT.

(B) POEHL WENT ON TO SAY THAT EVEN IF GERMANY WERE TO BOOST ITS GROWTH RATE TO 6 PERCENT BY STIMULATIVE MEASURES, THE EFFECT ON GROWTH IN THE U.K., FRANCE AND ITALY WOULD BE MARGINAL. ON THE OTHER HAND, THE FISCAL COSTS TO THE FRG WOULD BE INORDINATELY LARGE -- TOO LARGE TO CONSIDER.

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INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07
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(ISO) W

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P R 021712Z MAY 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 7902
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
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AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 02 OF 02 BONN 07544

(C) AS TO THE NEED OF STRONG SURPLUS COUNTRIES
COMING TO THE AID OF THE DEFICIT COUNTRIES, POEHL
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DEEMPHASIZED THE ISSUE SAYING THAT THE U.K. IS MOVING
TO A SURPLUS POSITION, FRANCE IS HAVING NO FINANCING
PROBLEMS, AND ITALY'S TROUBLE IS POLITICAL IN NATURE;
THE EC IN GENERAL IS NOT IN BALANCE OF PAYMENTS DIFFI-
CULTY. FURTHERMORE, IT IS NATURAL THAT SUCH COUNTRIES
AS BRAZIL AND CANADA, GIVEN THEIR RESOURCES, SHOULD BE
CAPITAL IMPORTERS. THE OPEC SURPLUSES ARE DIMINISHING
AND THE LDC'S CURRENT ACCOUNT DEFICITS, WHICH ARE
BEING REDUCED, SHOULD NOT BE OVERDRAMATIZED. POEHL
ACKNOWLEDGED, THOUGH, THAT REAL PROBLEMS EXIST IN SPAIN,
TURKEY AND PORTUGAL. THE IM IS THE RG-PREFERRED
CHANNEL IN HELPING OUT WITH THE ADJUSTMENT PROCESS.

(D) POEHL WAS ASKED WHO WILL ABSORB THE DEFICIT
GIVEN THE FACT THAT ONE COUNTRY'S SURPLUS
MUST BE SOME OTHER COUNTRY'S (IES')
DEFICIT IN THE ZERO-SUM GAME OF CURRENT ACCOUNT

BALANCES, ESPECIALLY SINCE MANY COUNTRIES HAVE REACHED
THE LIMITS OF DEFICIT ABSORPTION. HE RESPONDED
THAT THERE IS VERY LITTLE
FURTHER THAT GERMANY PLANS TO DO OR THINKS IT COULD DO
TO HELP IN THIS REGARD WITHOUT DAMAGING ITS OWN DOMESTIC
ECONOMY. ON THE OTHER HAND, HE ASSERTED, GERMANY IS
NOT AGAINST GLOBAL, MACROECONOMIC DEMAND MANAGEMENT.
IT IS JUST THAT THE FRG IS FIRMLY CONVINCED THAT MORE
EXPANSIVE POLICIES WOULD HAVE GREATER DISADVANTAGES THAN
ADVANTAGES.
STOESSEL

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